

Annual Internal Audit Report & Opinion

2019 - 20

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents

Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5-6
4. Internal Audit Coverage and Output	7-9
5. International Standard on Assurance Engagements (ISAR 3402)	10
6. Key Observations	11-13
7. Anti-Fraud and Corruption	14-15
8. Quality Assurance and Improvement	16
9. Disclosure of Non-Conformance	17
10. Quality control	17
11. Internal Audit Performance	18
12. Acknowledgement	18

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- Level of assurance required;
- Significance of the objectives under review to the organisation’s success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Hampshire County Council's audit need that has been covered within the period.

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of Authority's services, has resulted in some delays in completing planned 2019/20 reviews, particularly those planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the organisation's framework of risk management, governance and control during 2019-20.

Annual Internal Audit Opinion 2019-20

“I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council’s internal control environment.

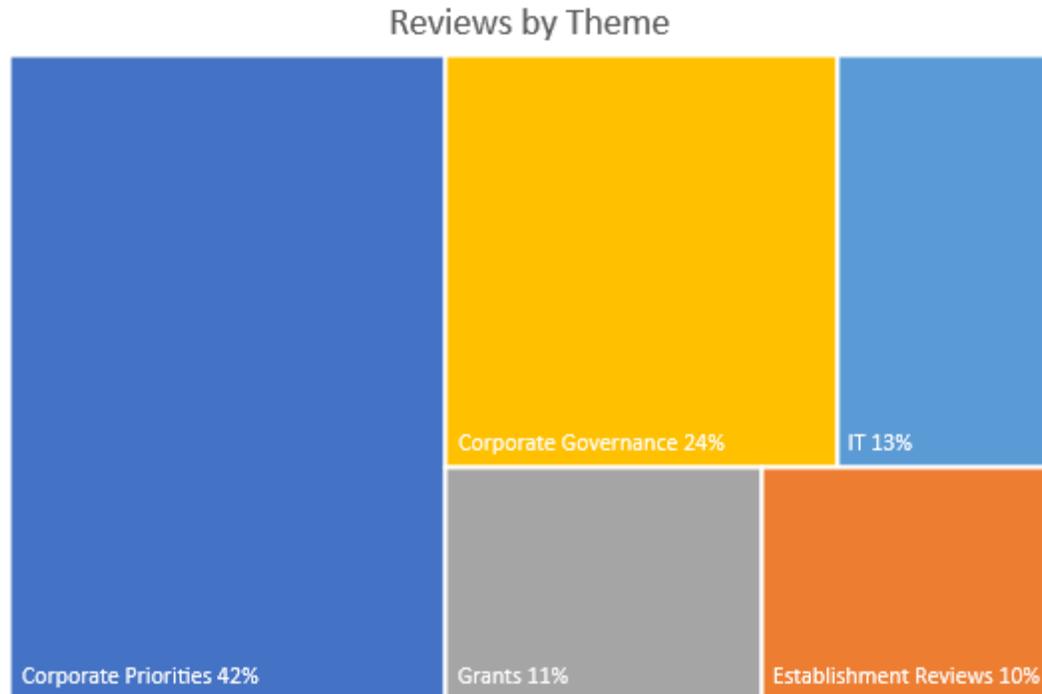
In my opinion, Hampshire County Council’s framework of governance, risk management and control is ‘Adequate’ and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”

We acknowledge that Covid-19 presents new risks as well as challenges to the normal operation of existing risk management, governance and control frameworks, at least in the short term and this will be reflected in our work, as appropriate, going forwards. It is not possible at this time to form a view on the impact of these challenges on the overall risk management, governance and control environments operated by the County Council.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2019-20 Internal audit plan, approved by the Audit Committee in July 2019, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 95 reviews during the year ending 31 March 2020.

Due to the breadth of audit coverage across the organisation there has been an inevitable impact on the delivery of those reviews scheduled for completion within the quarter four portfolio allocations which has either resulted in delays or early cessation of planned audit work.

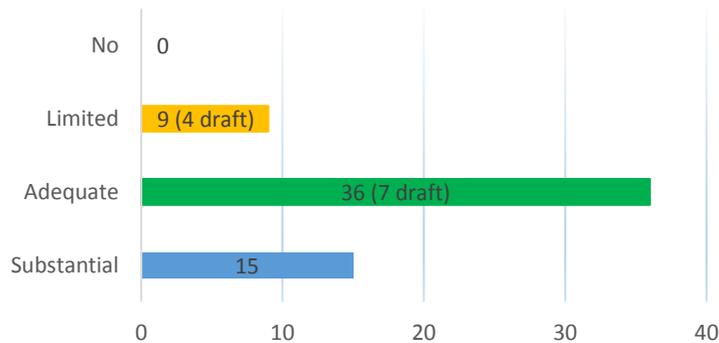
The revised 2019-20 internal audit plan has been delivered with the following exceptions:

- Work had commenced but halted prior to completion either due to availability of staff or difficulties in auditing the service area virtually in respect of 4 reviews:
 - Performance Management,
 - School thematic review (recruitment),
 - Adults establishment thematic (workforce development) and
 - Direct Payments

- Fieldwork remains in progress in respect of 12 reviews. It is fully anticipated that assurance work will be completed in these areas in the near future and will be reported to Senior Management and the Audit Committee as part of our next progress report
 - Local management of Shared Services processes
 - IT Change management
 - Data storage
 - Data centre security
 - Cyber security
 - Recording in AIS
 - Client Affairs
 - Local bus subsidy support
 - Governance arrangements (Shared Services)
 - IR35 (Shared Services)
 - Master Data Team (Shared Services)
 - Payroll – pension admin (Shared Services)

- Work is substantially complete, and an opinion has been formed for 11 reviews however, final reports have not yet been agreed.
 - Risk management (Limited)
 - IT Capacity planning and management (Adequate)
 - Health assessments (Limited)
 - Charging of short-term beds (Limited)
 - Highway development planning (Adequate)
 - Disclosure and Barring Service (Adequate)
 - Building term contract management (Adequate)
 - Approved mental health professionals (Limited)
 - Inclusion and diversity (Adequate)
 - Traded Services (Adequate)
 - Contract management thematic – Corporate Resources (Adequate)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Adequate - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

*23 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, grant certification or concluded with a position statement

5. International Standard on Assurance Engagements (ISAE 3402)

ISAE 3402 provides an international assurance standard allowing public bodies to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting enabling them to inform both their annual governance statement and the annual audit opinion.

ISAE 3402 provides for two types of report:

- Service Organisation Control (SOC) Type 1 Report - attestation of controls at a service organisation at a specific point in time
- Service Organisation Control (SOC) Type 2 Report - attestation of controls at a service organisation over a minimum six-month period.

In 2019/20 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, Human Resources & Payroll and Information Technology General Controls

In forming their 'Opinion' the auditors (Ernst & Young) concluded:

'In our opinion, in all material respects, based on the criteria described in the Integrated Business Centre's Assertion:

- a) The Description fairly presents the System that was designed and implemented throughout the period 1 April 2019 to 31 December 2019.*
- b) The controls related to the Control Objectives were suitably designed to provide reasonable assurance that the Control Objectives would be achieved if the controls operated effectively throughout the period 1 April 2019 to 31 December 2019 and if user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2019 to 31 December 2019.*

The controls operated effectively to provide reasonable assurance that the Control Objectives were achieved throughout the period 1 April 2019 to 31 December 2019 if complementary user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2019 to 31 December 2019'

6. Key Observations

There were no 'No Assurance' opinions issued during the year. In general, internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some areas identified that provide challenge to the organisations risk environment:

Management of Guardianship – Mental Health

A review of all service users subject to a Guardianship Order was undertaken to ensure compliance with established policies and procedures.

Testing highlighted that in all cases there was a lack of documentation and/ or records supporting the guardianship application, renewal and discharge processes. Whilst each record retained some documentation, there was no one client reviewed for which all necessary documentation was evident.

There is a risk that in the absence of key documentation the authority may be unable to demonstrate that a guardianship order has been properly administered or has been made in the best interest of the client and is not a deprivation of the client's liberties.

Use of Agency Staff – Children's Services

The use of agency workers is essential to ensure the efficient and effective delivery of Council services. Hampshire County Council is committed to ensuring those workers engaged through an agency to work for the Council on a temporary basis are treated in compliance with the Agency Workers Regulations for which relevant and up to date policy and guidance exists.

Testing of agency staff acquired by Children's Services through the Council's former framework 'Matrix' along with those commissioned 'off-contract' highlighted weaknesses in the absence of retained documentation to support the audit trail for pre-employment checks. There was also a lack of evidence to substantiate the approval to recruit agency workers (on or off-contract) and further to any contract extensions (beyond an initial 90-days).

Additionally, there was no clarity or guidance available to managers with regard the retention of supervision files on completion of the agency workers contract.

Short Term Beds

The audit highlighted that approximately one third of residential reablement placements approved since September 2019 had been extended for longer than six weeks.

Review of a sample of reablement cases where stays exceeded the six-week period ranged from 43 to 307 nights. The decision to extend the period of care as reablement waives any potential charge to the client.

Well-being checks are undertaken for prospective hospital-based clients that may require a residential placement on a short-term basis, such as reablement. Whilst we confirmed such checks to have been undertaken a significant proportion of short-term placements to which they relate were extended more than the original planned stay. This may question the effectiveness of the original well-being check in not fully identifying the care needs of the client. There is a risk that extended stays result in short term beds not being used for their intended purpose.

It is understood that a wider project of work is ongoing across the NHS and social care which will contribute toward mitigation of identified risks.

Approved Mental Health Professionals

Hampshire County Council (HCC) have a statutory responsibility to ensure that there are sufficient AMHPs to undertake the functions delegated to them under the Mental Health Act. In addition, every AMHP must be approved by a Local Social Services Authority (LSSA) to ensure they are competent to practice.

AMHPs are required to maintain a portfolio of essential supporting evidence to demonstrate their continued competence. Our review found inconsistency in the retention and completion of essential documentation.

LSSAs are required to maintain a register of all AMHPs who have been approved and retain records for five years from the day the approval ended. Review of the register highlighted gaps in the recording of required information.

The register is also used to record key dates for re-approval as an AMHP. If information is incomplete, the register cannot be used for accurate and reliable monitoring purposes.

Risk Management

It is acknowledged and important to recognise that the Council have an exceptional record of managing risk as part of their business as usual and decision making processes and further as part of departmental developments, project management and implementation of new and emerging legislation. This is reflected in the Risk Management Strategy and can be evidenced through numerous initiatives and validated through the successful outcomes of a range of external reviews, and certifications. It is therefore important to clarify that observations as part of this review were not reflective of risk management at this level.

However a review of the Council's strategic risk management approach highlighted weaknesses in the effectiveness of recording and reporting of the corporate risks to senior management and Members enabling them a holistic overview and articulation of the key risks to the Council, and how each are being mitigated / managed enabling regular review and challenge both to existing risks and providing the ability to consider new and emerging risks.

AH&C and Children's Establishments - Amenity Funds, Imprest and PCards

Thematic reviews were undertaken across a selection of establishments within Adult Health Care and Children's Services.

Review of amenity funds, imprest accounts and Procurement Cards within establishments visited commonly found transactions to be unsupported by receipts, unauthorised and documentation incomplete. Additionally, VAT was not consistently accounted for.

7. Anti-Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

Reactive Fraud Activity - The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy and Response Plan.

During 2019/20 one fraud investigation was undertaken by SIAP. This was taken forward as an internal disciplinary matter and resulted in the dismissal of the employee. On this occasion, due to the standard of evidence available this matter was not referred to the police as the case could only be proved to an 'on the balance of probabilities' standard.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

2019/20 was a match release year and our work focussed on facilitating match enquiries received and assisting departments with the investigation of matches. This exercise is now complete, and all match reports have been closed on the Cabinet Office NFI website. The exercise has identified approx. £250,000 of savings for which arrangements (where applicable) have to be put in place to recover. The highest areas of yield were residential care payments £136,000, personal budgets £67,000 and pensions £32,000.

Proactive Approach - Whilst our reactive fraud work assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

- The annual CIPFA fraud survey was completed on behalf of the Council and submitted in accordance with the June 2019 deadline.
- Advice and guidance were provided across approx. 70 enquiries. The common themes continue to relate to email scams (mandate fraud, malware, and spoof emails), with schools being particularly targeted.
- We have continued to expand upon and develop our range of general fraud awareness training presentations. We are liaising with Learning and Development to determine which of these will be of benefit to the Council as E-learning packages.

The presentations developed have now also been tailored in such a way as to be deliverable via MS Teams which we will look to roll out as a training offer internally & externally.

- Two themed proactive reviews were undertaken during the year, both of which were in relation to the NFI companies house matches.

These reviews remain in progress as testing has been delayed due to the impact on departmental priorities resulting from the COVID-19 pandemic. These are now scheduled for completion by the end of July.

8. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

9. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

10. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

11. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	92%	87%
Positive customer survey response			
<ul style="list-style-type: none"> Hampshire County Council 	90%	n/a	98%
<ul style="list-style-type: none"> SIAP – all Partners 	90%	99%	98%
Public Sector Internal Audit Standards			
	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including senior officers and key contacts involved in the audit process throughout the year.

12. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire County Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
 Head of Southern Internal Audit Partnership
 July 2020